

Decision **PROPOSED DECISION OF ALJ SMITH** (Mailed 1/23/2015)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U 904 G) to Amend its Certificate of Public Convenience and Necessity for the Aliso Canyon Gas Storage Facility.

Application 09-09-020
(Filed September 30, 2009)

DECISION ADDRESSING PETITION OF SOUTHERN CALIFORNIA GAS COMPANY FOR MODIFICATION OF DECISION 13-11-023**Summary**

This decision denies Southern California Gas Company's (SoCalGas's) petition to modify Decision (D.) 13-11-023 to clarify that the \$200.9 million cost cap established in D.13-11-023 is to be adjusted to reflect escalation after March of 2013. D.13-11-023 already provides SoCalGas a procedure for requesting increases to the cost cap. SoCalGas does not introduce any new facts that necessitate a modification of D.13-11-023.

This proceeding is closed.

1. Background**1.1. The Certificate of Public Convenience and Necessity (CPCN) Amended by Decision (D.) 13-11-023**

Southern California Gas Company (SoCalGas) provides natural gas to approximately six million customers in southern California. This service includes operation of four underground natural gas storage facilities to help meet peak hourly, daily, and seasonal demands for all its customers. The Aliso Canyon

Storage Field (Storage Field) is SoCalGas's largest underground natural gas storage field and is located in unincorporated areas of Los Angeles and Ventura Counties, and northern Los Angeles near Northridge, encompassing a surface area of approximately 3,600 acres.

D.13-11-023 granted SoCalGas's request to amend its CPCN for construction and operation of the turbine replacement project (Project) at the Aliso Canyon Gas Storage Facility (Facility). Approval of the application allows SoCalGas to fulfill terms of the settlement agreement approved by D.08-12-020, which, among other things, requires SoCalGas to make commercially reasonable efforts to replace obsolete gas turbine compressors in order to expand natural gas injection capacity at the Facility.

In addition, D.13-11-023: (1) adopted the settlement agreement between SoCalGas and neighboring Porter Ranch residents addressing the safe operation of the Facility in a high fire risk area; (2) a revenue requirement based on actual project costs up to a maximum of \$200.9 million; (3) authorized SoCalGas to record project costs exceeding \$200.9 million in a memorandum account for possible future recovery; (4) approved expansion of an easement necessary for completion of the Project; (5) confirmed the Commission's preemptory authority over conflicting city and county zoning regulations, ordinances, codes, or requirements; and (6) adopted the environmental impact report prepared for the Project pursuant to the California Environmental Quality Act (CEQA).

In addition to construction of the Project at the Facility, new and modified electrical facilities are required to provide power for the Project. These facilities

are being constructed by Southern California Edison Company (SCE).¹ SCE is an investor-owned public utility operating an interconnected and integrated electric utility system that generates, transmits, and distributes electric energy in portions of central and southern California.²

The Project approved in D.13-11-023 includes only those improvements and activities proposed within the Storage Field. However, for purposes of CEQA, the Project included improvements and activities related to electric system modifications for which SCE obtained separate authorization from the Commission.³

1.2. The SoCalGas Petition

SoCalGas's November 12, 2014 petition (Petition) requests clarification that the \$200.9 million cost cap established in D.13-11-023 is to be adjusted to reflect escalation after March of 2013.

1.3. Procedural Background

SoCalGas filed the Petition on November 12, 2014. Notice of the Petition appeared in the Commission's November 17, 2014 daily calendar. On December 12, 2014, the Office of Ratepayer Advocates (ORA) and Southern

¹ To provide power to the electric-driven, variable-speed compressors, SCE will construct and operate a 56-megavolt-ampere, 66/12 kilovolt (kV) substation (the Natural Substation) on the Storage Facility site; and reconductor and replace towers and poles along segments of SCE's-MacNeil-Newhall-San Fernando-Sunshine 66 kV Subtransmission Line and MacNeil-Newhall-San Fernando 66 kV Subtransmission Line in the Project area. In addition, SCE will install equipment at SCE's Newhall, Chatsworth, Pardee, and San Fernando Substations; and install new fiber optic telecommunications cable in order to allow for remote monitoring and operation of the electrical facilities.

² In addition to its California properties, SCE separately or jointly owns facilities in Nevada, Arizona, and New Mexico that produce power and energy for use in California.

California Generation Coalition (SCGC) each filed a response in opposition to the Petition. On December 22, 2014, SoCalGas filed a reply to the responses.

2. Discussion

D.13-11-023 should not be modified to clarify that that the \$200.9 million Project cost cap established in D.13-11-023 may be adjusted to reflect escalation for Project costs incurred after March of 2013. SoCalGas proposes that Footnote 39 in D.13-11-023 be modified to add the following text:

“SoCalGas shall adjust the \$200.9 million Project cost cap to reflect escalation for Project costs incurred after March of 2013 using the appropriate escalation indices published by IHS Global Insight available at the time of project completion.”

SoCalGas requests clarification that the cost cap is to be adjusted to reflect escalation after March of 2013 because its capital cost estimates were based on a Project completion date of March 2013, whereas Project construction did not begin until March of 2014 and the Project is currently scheduled to be put into service in November of 2016. SoCalGas explains that Project expenditures incurred during 2014–2016 are at odds with a cost cap that assumes Project construction taking place 2010–2013, and that the cost cap already includes escalation through the original anticipated in-service date of April 2013. SoCalGas claims this clarification is a reasonable and common-sense extension of the limited escalation already incorporated into the cap, and may have been the Commission’s unstated intention.

ORA opposes the Petition, claiming it is contrary to the findings, conclusions, and orders set forth in D.13-11-023, which require that any proposed

³ Pursuant to General Order 131-D, SCE filed Advice Letter 3067-E on June 30, 2014, which became effective on August 1, 2014.

increase to the maximum authorized cost of \$200.9 million be reviewed in the SoCalGas general rate case (GRC) following completion of the Project. ORA claims that SoCalGas's request would effectively prejudge the reasonableness of any costs above the authorized \$200.9 million. ORA recommends that if SoCalGas needs to adjust the cost cap, the appropriate procedural vehicle to do so is the GRC following Project completion.

SCGC opposes the Petition because D.13-11-023 provided a mechanism for SoCalGas to recover Project costs in excess of \$200.9 whereby SoCalGas may record costs in a memorandum account and seek recovery in its next GRC. SCGC also points out that escalation of construction costs might be offset by cost savings, or Project costs could exceed the cost cap for other reasons, and recommends the Commission consider the reasonableness of all Project costs in totality once the Project is completed.

In response to ORA and SCGC opposition, SoCalGas states that it is not proposing an "end run" around reasonableness review by raising the cap, as the entire cost of the Project would still be subject to reasonableness review if costs exceeded the new cap. SoCalGas explains that since most expenditures are taking place in 2014-2016, it simply wants to ensure that expenditures are compared to a cost cap stated in the same units via escalation of the cost cap. Further, SoCalGas states that escalation is not something it can control, and to subject all Project costs to a reasonableness review if the cap was exceeded only due to escalation would be unfair.

We deny the Petition for three reasons. First, no clarification is necessary because D.13-11-023 clearly lays out a process whereby SoCalGas may seek to

recover any costs in excess of the \$200.9 million cost cap by recording those costs in a memorandum account.⁴ If Project costs exceed \$200.9 million a review of the reasonableness of all costs will be conducted in the GRC following Project completion.⁵ Had the Commission intended this process to apply only to costs in excess of a \$200.9 million cost cap plus escalation, it would have clearly stated so. SoCalGas has not argued the adopted process is insufficient in any way, nor has it provided justification that the relief sought in the Petition is not already provided through the process adopted in D.13-11-023.

Second, SoCalGas does not introduce any new facts that necessitate a modification of the decision. D.13-11-023 approved a cost cap of \$200.9 million based on the capital cost estimates provided by SoCalGas. When D.13-11-023 was issued for comment in October 2013, it was clear that the Project timeline was delayed. SoCalGas never proposed to update its capital cost estimates, and in its comments on the Proposed Decision, SoCalGas did not raise any concerns regarding the appropriateness of the \$200.9 million cost cap, the possibility of escalation of costs due to Project delay, or object to the process provided for recovering any costs exceeding the cost cap.

Finally, even were clarification warranted, SoCalGas's request lacks the specificity necessary to modify D.13-11-023. SoCalGas does not provide the escalation indices necessary to calculate a new cost cap, the specific time period over which those indices would be applied, and does not propose a final value for a new cost cap.

⁴ SoCalGas established the memorandum account in Advice Letter 4568.

⁵ See D.13-11-023, Conclusions of Law 36, 37, and 38, and Ordering Paragraphs 9, 10, and 12.

Because there is no ambiguity in D.13-11-023 and no changed facts, there is no need to modify D.13-11-023 with respect to the cost cap or adjustments thereto. The Petition is denied.

3. Comments on Proposed Decision

The proposed decision of ALJ Smith in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. SoCalGas filed comments on February 12, 2015. No reply comments were filed. The comments have been considered and appropriate changes have been made.

4. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and Richard Smith is the assigned ALJ in this proceeding.

Findings of Fact

1. D.13-11-023 granted SoCalGas's request to amend its CPCN for construction and operation of the turbine replacement project at the Aliso Canyon Gas Storage Facility.
2. D.13-11-023 approved a revenue requirement for SoCalGas based on actual project costs up to \$200.9 million.
3. D.13-11-023 authorized SoCalGas to record project costs in excess of \$200.9 million in a memorandum account for possible future recovery.
4. SoCalGas filed the Petition on November 12, 2014. Notice of the Petition appeared in the Commission's November 17, 2014 Daily Calendar.
5. On December 12, 2014, ORA and SCGC each filed a response in opposition to the Petition.
6. On December 22, 2014, SoCalGas filed a reply to the responses.

7. The Petition requests that the Commission modify D.13-11-023 to clarify that the \$200.9 million cost cap is to be adjusted to reflect escalation after March of 2013.

Conclusions of Law

1. There is no ambiguity in D.13-11-023 requiring clarification.
2. SoCalGas does not introduce any new facts that necessitate a modification of the decision.

O R D E R

IT IS ORDERED that:

1. The petition of Southern California Gas Company to modify Decision 13-11-023, filed on November 12, 2014, is denied.
2. Application 09-09-020 is closed.

This order is effective today.

Dated _____, at San Francisco, California.